“A STUDY OF INCOME TAX EVASION IN MAHARASHTRA WITH SPECIAL REFERENCE TO KOLHAPUR DISTRICT”

A SYNOPSIS SUBMITTED

FOR THE DEGREE OF DOCTOR OF PHILOSOPHY

IN

COMMERCE

BY

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UNDER GUIDANCE

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PRINCIPAL AND RESEARCH GUIDE
MAHATMA JYOTIBA PHULE MAHAVIDYALAYA, MUKHED,
DIST-NANDED (M.S)

TO

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UNIVERSITY, NANDED.

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March 2022

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Title of Research

"A STUDY OF INCOME TAX EVASION IN MAHARASHTRA WITH SPECIAL REFERENCE TO KOLHAPUR DISTRICT"

Introduction

India has rich human and natural resources to increase economic growth. In addition, new technologies are being implemented in various industries to develop industrialization in India. In particular, Maharashtra state has always been hub of industrial development. Any county's growth depends upon collection of taxes and other sources of revenue generated from these industries and allied businesses. However, tax evasion has been the reason for poor economic growth of India since independence. Tax evasion is a big problem of India and it leads to decrease in investments in public sector. Government uses the tax paid money in different funds to improve health sectors, education, technology, agriculture and other government programmes. However, the tax that the government takes is not illegal money however; tax evasion revolves around not disclosing an income. Tax evasion indirectly helps to increase net profit of the business which further provides extra advantage to a businessman to increase his business in a competitive market; however, it needs to be avoided while maintaining an Indian economy. The proposal will revolve around impact of tax evasion in maintenance of the economy of the country without any aspersion.

Research Problem

The country needs more tax revenues to improve the health sector, education and other sectors. Government needs about $2.5 trillion to achieve sustainable development annually for the nation (THE WORLD BANK, 2022). Many countries collect less than 15% of GDP as tax revenue and this tax collection should be increased for sustainable development. Many complicated tax systems are the main reason for tax corruption. Tax evasion has become a big issue of Kolhapur district as most businessmen do different kinds of fraud in tax paying. Mr. Mahadik accused Mr Patil that he has many unknown properties and he doesn't pay property tax to Kolhapur Municipal Corporation (TNN, 2021). It is tax evasion of Mr. Patil that affects the economic growth of the country. It is found that a doctor in Kolhapur who has been practicing homeopathy for many years has not filed a return of income tax for the past five years. He has made many illegal properties. The income tax department has seized about 30 crores and about 40 kg of costly jewellery from D Y Patil Group at the time of raiding by the department. The department has seized many different documents of illegal properties

and many investment related documents. As per the sources, under the D Y Patil Group many educational institutions take extra fee or donation from the public for academic study. These donations are hidden as black money. The income tax department has raided many institutions in Pune and Mumbai as well.

During demonetization, under the scheme of "Income Declaration Scheme 2016" many businessmen and professionals paid the taxes on their undeclared cash holdings. This clearly indicates that many businessmen avoided paying taxes and filing tax returns.

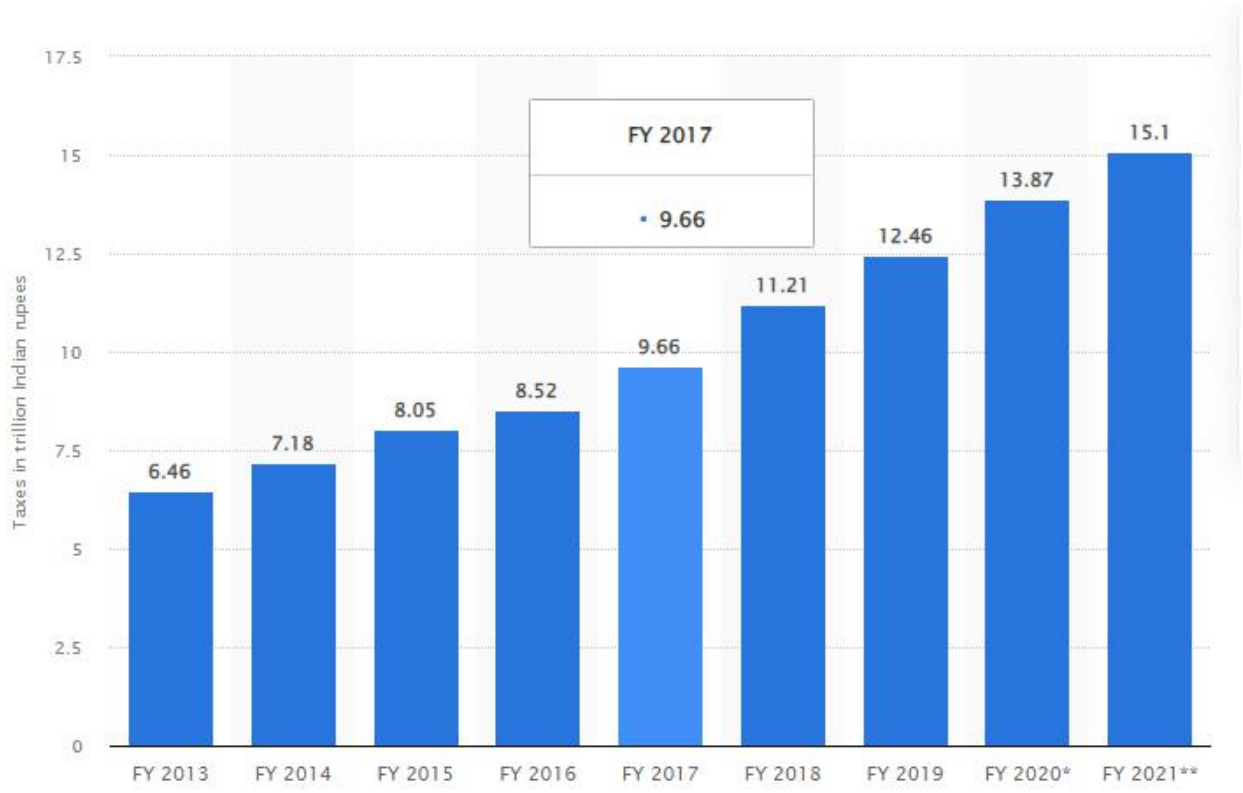

Figure 1: Increase of income and property taxes in India

(Source: Statista, 2021)

According to an analysis the main sectors of tax payer are manufacturing (31%), trading (8%), real estate (29%), educational (7%) and others. About 6 crore of silver jewellery were seized during a check by Navi Mumbai Police of Kolhapur businessmen (Shaikh Farhan, 2020). In the report about 200 businessmen are involved in this scam. The Department has filed a case against the businessmen who were involved in this raid. All jewelleries have been seized by the police and they are in search of this type of tax fraud. Jogesh Kanodia, the owner of Ganesh Textile has been arrested due to fraud of 185 crores.

This Kanodia company was involved with four other fake companies and the report of their company sales was found to be fake. These kinds of scams are responsible for the lower growth rate of the Indian economy. In Kolhapur many businessmen are doing these kinds of frauds to avoid the taxes. They always try to find a way to pay less tax to the government. Many high profile people are involved in the cases of tax fraud. They have many illegal properties to the names of their relatives and these properties have no record to the government. High profile people always save themselves by using political power.

Figure 2: Tax Evasion in different countries including India

(Source: Balancing everything, 2021)

Objectives of Research

The aim of the research is to evaluate impact of tax evasion on revenue generated through collection of income tax of India with special emphasis on Kolhapur, Maharashtra.

The objectives of the research are as follow:

- **To understand concept of tax evasion**
- **To investigate various strategies followed by businessmen to evade income tax**
- **To evaluate tax evasion impact on economy.**
- **To evaluate tax literacy and create awareness among businessmen**
- **To provide suggestions to minimize tax evasion.**
- **To investigate reasons behind tax evasion**

Necessity and Significance of Research

The proposal discusses one of the most significant issues that have been taking place over years in Kolhapur, Maharashtra, India. Taxes have a large contribution to the GDP of a country; it helps to develop the infrastructure of the country. Government can invest in infrastructure development programmes as a result there would be large development to make an industrial area or manufacturing plant. Industry creates many job opportunities for the people of the country. Job helps to earn money for the people and they can change their lifestyle (Sorjonen & Melin, 2019). Many major industries are situated in Kolhapur district and the industries are continuously helping to grow the Indian economy. Our focus of study will mainly be on the small scale businesses and professionals that provide various services. Government doesn't get the exact revenue from many businessmen. As a result the government faces big losses in collecting revenue and the government cannot fund the public sector schemes per the requirements. Many small engineering industries are also increasing in Kolhapur and these industries have a significant role to develop the industrial sector of Kolhapur (Sari et al. 2022)

Functional Areas/Locations of Research to be undertaken

Twelve talukas are located in Kolhapur district viz; Shahuwadi, Panhala, Hatkanangale, Shirol, Karveer, Gaganbavada, Radhanagari, Kagal, Bhudargad, Ajara, Gandhinglaj and Chandgad. In Kolhapur many major industries play an important role in the Indian economy (Williams & Jackson 2019). For the present study, we will focus on businessmen under the categories of sole proprietors, small scale businessmen, retail shopkeepers and individual professionals such as Doctors, Lawyers and Chartered Accountants etc.

Hypothesis

There is a significant negative relationship between income tax evasion and Indian economy specifying null hypothesis.

There is no significant positive relationship between income tax evasion and Indian economy indicating alternate hypothesis (Haahtela, 2019).

Indian economy is dependent variable while tax evasion is an independent variable. Indian economy depends on agriculture, manufacturing, foreign investment and many others.

Limitations of Research

Agriculture is not included in this research and it has no direct link with tax evasion. The people who are engaged in agriculture are not the biggest income tax payers. Their activities are related to cultivation and they are less engaged with income tax paying system. Ground level workers are not also connected directly with tax paying system. Their lifestyle is simple and thus they do not go through the taxes paying process (Baig et al. 2020). In the other states, there are many issues regarding the taxes paying system. The issues are not discussed in this study. In this study other industries which are not in Kolhapur are not discussed (Theofanidis & Fountouki, 2018). For example, the automobile industry is not included in this study.

Review of Literature

Concept of Tax Evasion

Tax evasion is activity by which businessmen hide their original income and properties to reduce the tax paying money. According to Socoliuc et al. (2018), in India, including in Kolhapur district, it is totally illegal to pay less tax to the government. People show the government less property to reduce tax as it is an illegal process. A businessman has to pay an amount of money from one's income as tax to the government. Government uses this tax paid money for public welfare for instance, to improve health care sectors, education system and to develop transportation infrastructure for the entire country (Socoliuc *et al*.2018).

Most of the times, in India, many businessmen hide their original property to the government as they pay less tax to the government. They show the government false reports of their business and their earnings. Taxes are paid according to the report of the business. As less profit is shown to the government they have to pay less or no taxes. Tax evasion is crime as per the Indian Revenue Service. Government imposes charges as a penalty for tax evasion.

Tax evasion is a big problem for Indian economy (Abdixhiku *et al.* 2018).

The most of the businessmen always avoid paying tax to get extra benefits and advantages in the competitive market. Different policies of the government for business are reasons behind the tax evasion of the country. Additional reason for tax evasion is public sector governance in tax evasion. Tax evasion has influenced the environment of business and made a new model of business. This business model will be extended due to the impact of tax evasion in the Indian economy. Tax evasion has a significant impact on relation between manager and employee and their accountability, discipline and transparency policies. Tax evasion increases corruption in the market and business policies may have fallen due to high rates of

corruption. The businessmen who are involved in tax evasion cases are trying to increase corruption to increase business size. Quality and transparency of products are to be decreased due to corrupted businessmen. The businessmen who pay fewer taxes get extra benefits or advantages in the competitive market (Nikulin, 2020).

Tax evasion will damage the future growth of Indian economy and the sustainable development is to be affected by the taxes evasion (Kipilimba, 2018).

Here are some steps to stop tax evasion, reducing tax rates, simplified laws of tax paying, making permanent tax policy, increasing the strength of anti-corruption policies and making a good administrative tax structure (Gillman, 2021).

The taxpayers from Dakshin Kannad District of Karnataka State are reasonably well aware of taxation system. Taxpayers of this area were wise enough to invest their income carefully so as to get tax deductions (Ganesh Acharya And Siddiq A. 2017).

In recent years, many taxpayers were found to try to escape from taxation system because of complex taxation procedures. This also reflects in increased percentage of tax evasion practices during last decade. They further emphasize that lack of tax literacy leads to less morality on investment and savings (Krishsamy J. And Subramanian P 2017).

Research Methodology

The research will focus on analysing tax evasion strategies used by different businesses.

Primary Data Collection:

The primary quantitative method will be carried out where survey of around 30 persons will be carried out in 12 tehsils within Kolhapur district, Maharashtra where the total is about 360. Therefore, the sample is 360 participants selected from the district.

For the primary data collection, I will prepare questionnaire which will be curated by tax experts. The questionnaire will contain various questions related to gross and net income, various sources of income, business turnover, business expenditures, properties and liabilities. Furthermore, additional information may be collected from department of income tax Kolhapur District.

Secondary Data Collection:

Website of Income Tax Department of India, their manuals and bulletins will also be used for collecting additional information as and when required. Websearches, books and magazines may be used for data collection.

Sampling method:

Simple random method under the stratified sampling method will be applied to the samples to be collected.

Statistical tools:

Collected data will be subjected to various statistical analyses such as percentages, frequency, median and mean etc.

Outline of the Research proposal

The proposal will outline different chapters such as introduction where the research problem has been identified specifying different incidents taking place in Kolhapur district. It has been found that businessmen are responsible for committing most of the crimes especially in evading tax in the district. The literature review is the second chapter where information has been taken from different journals where information has been presented argumentatively. Chapter three will discuss tax awareness and literacy among tax payers, their fears and myths about tax system. Chapter four will mainly about actual data analyses and results discussion. Finally Thesis will end by summarizing and concluding the research.

Thesis will include the following chapters:

Chapter One :-	**Introduction and Research Methodology**
Chapter Two :-	**Review of Literature**
Chapter Three :-	**Tax Literacy and awareness among Taxpayers**
Chapter Four :-	**Data collection, Analyses and Results**
Chapter Five :-	**Summery and Conclusion**

Timeline of the proposed research problem

The proposed research problem will be conducted for the period of 36 months. Following is the timeline.

1. Introduction about Tax regimes	:	2 months
2. Review of literature	:	5 months
3. Guidance study	:	3 months
4. Methods of research and preparation of questionnaire	:	6 months
5. Data collection and Statistical Analyses	:	12 months
6. Results and Conclusion	:	4 months
7. Summary of the proposed research	:	1 month
8. Thesis printing and binding	:	2 months

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